

January 29, 2024  
Canon Marketing Japan Inc.

## Q&A

at FY2023 Financial Results Presentation Meeting for Analysts and Corporate Strategy Conference  
including the presentation of the Medium-Term Management Plan (2022-2025) Progress Report

Date and Time: January 29, 2024, 16:00-17:30

Format: Zoom webinar

Participants:

- Masachika Adachi, President
- Hatsumi Hirukawa, Director and Vice President (in charge of group planning and group communications)
- Tsuyoshi Osato, Director and Vice President (in charge of group accounting)

### ■ FY2023 Financial Results Presentation Meeting for Analysts

Presenters:

- Hatsumi Hirukawa, Director and Vice President (in charge of group planning and group communications)
  - Tsuyoshi Osato, Director and Vice President (in charge of group accounting)
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#### 【Q1-1】

Page 8 of the financial results briefing slides shows annual changes in SG&A expenses. What is your SG&A expense estimate for FY2024?

#### 【A1-1】

Advertising expenses are expected to increase for FY2024, since we are planning to introduce new products and hold more exhibitions and offline events. In addition, we estimate IT expenses to be slightly high in view of the expansion of IT investments. On the other hand, personnel expenses for FY2024 will continue to drop due to the natural decrease in staff. We are thinking of making up for this by increasing productivity per person instead of hiring a large number of new personnel. Expenses for retirement benefits are one of the major constituents of personnel expenses. They increased in FY2023, but they will decrease this fiscal year. While total personnel expenses will shrink by around 1.0 billion yen, total SG&A expenses will swell due to increased advertising expenses, IT expenses

and other expenses. We will strive to control the ratio of SG&A expenses to net sales to prevent them from exceeding the previous year's level.

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【Q2-1】

You acquired TCS last year. How much of the net sales and the operating income is TCS responsible for in the FY2023 results and in the FY2024 projection? I assume that some goodwill has been accrued. What is the impact of the acquisition of TCS, including goodwill? What is the growth rate of the IT solutions business excluding the impact of TCS?

【A2-1】

TCS's performance was not included in the financial results up to the end of the third quarter. Around a quarter of TCS's annual sales is included in our financial results for the previous fiscal year. TCS performance is expected to grow steadily in the current fiscal year, and this year's projection includes its net sales for the full year. I would like you to understand that the increase in sales in the IT solutions business includes an amount that is slightly larger than 8 billion yen, which is TCS's net sales for the year before last year. In the Enterprise segment, several activities for producing synergy are underway. We are informed that they are making good progress.

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【Q2-2】

Do you mean that operating income will be offset by goodwill, for almost no net change?

【A2-2】

Your understanding is correct.

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【Q3-1】

You explained that you would encourage users to replace office MFP and LBP hardware after they have been used for long periods of time. I believe that there is an industry trend toward encouraging users to use hardware as long as possible to avoid price wars for the replacement of hardware over the past few years. Do you, Canon MJ, have a positive view that you have a price advantage that will enable you to increase your market share? Or is it that the whole industry is raising prices at the time of replacement to prevent a price war from having a negative impact?

【A3-1】

Two years ago, the product supply was short due to the semiconductor shortage. Many customers, especially small and medium businesses, extended their lease periods. In 3Q and later last year, we were again able to supply products plentifully. Since then, we have been conducting sales expansion

activities. Once they renew their lease contracts, they are unwilling to replace the hardware only because of the price unless we propose IT solutions to reform business. For many existing customers, our main activity is making high value-added proposals centering on IT solutions to encourage them to replace equipment. The industry-wide trend is similar. The point is whether or not we can make a high-quality proposal that precisely suits the customer's needs. We have changed our strategy and we now avoid lowering prices unreasonably to facilitate the replacement of equipment.

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■ Corporate Strategy Conference including the presentation of the Medium-Term Management Plan (2022-2025) Progress Report

Presenters:

- Masachika Adachi, President
  - Hatsumi Hirukawa, Director and Vice President (in charge of group planning and group communications)
  - Tsuyoshi Osato, Director and Vice President (in charge of group accounting)
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【Q4-1】

I have a question about the Medium-Term Management Plan. I suppose that some targets were revised upwards for the initial fiscal year. What is the current probability that you will achieve the new income targets? You explained that the first half of the three-year period was for sowing seeds, for preparing. However, the presentation suggests that income will rise sharply in 2025. What is the chance that you will achieve the targets?

【A4-1】

We need to increase operating income by around 4 billion yen from 2024 to 2025. We were recently joined by a new member. There will be some synergy produced by this. In addition, we are gradually shifting to service-type business areas. There is still plenty of room for the shift. We expect to reach the income targets for 2025 by taking various measures to improve profitability. We will work hard to achieve results that will surpass the targets.

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【Q4-2】

Do you mean that the key points are that the company acquired will aid growth and that your smooth shift to service areas will increase your profitability?

【A4-2】

Your understanding is correct.

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【Q5-1】

Page 10 of the Medium-Term Management Plan (2022-2025) Progress Report slides shows that each KPI steadily improved. Edge solutions sales seem to be growing constantly, but I feel they are still distant from the target figure for 2025. What developments can we anticipate in the next two years?

【A5-1】

Sales of edge solutions have progressed steadily. We released DigitalWork Accelerator and EDI-related solutions last year. We are thus shifting to a service-type business model. This differs from our conventional style in which we received a single order at a time. Orders have accumulated and the figure will rise in the second half. Projects are increasing and order received have been brisk. You said that there is a gap with the 2025 target, but I am not concerned. I believe we can certainly catch up.

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【Q5-2】

Page 22 of the Medium-Term Management Plan (2022-2025) Progress Report slides shows projections for 2024 and 2025 in the diagram regarding the 200 billion yen investment for growth. I suppose this include investments in systems, personnel and data centers. They could be divided into organic investments and M&A investments. What investment portfolio do you envision?

【A5-2】

We do not publish a breakdown of this. Roughly speaking, we are thinking of investing the largest amount in mergers, acquisitions and other growth investments. Another major investment target is the area of data centers. We are studying investments in projects for a third building and more buildings. M&A activities and data centers will be two major categories of our investments.

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【Q5-3】

Earlier today, you announced the establishment of the Special Committee. What is your idea of what its discussions will be like? In addition, what will its meeting schedule be?

【A5-3】

We are planning to have the results of the outside directors' discussion of whether minority shareholders are disadvantaged and other issues reported to the Board of Directors. Regarding its schedule, the committee will start meeting this fiscal year. It will hold meetings regularly and as necessary to ensure discussions are in-depth.

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【Q5-4】

Will the committee's agenda include any revision of the ownership ratio of the controlling shareholder?

【A5-4】

At the moment, we have set no limits on the subjects it will deliberate. The committee will discuss issues and deliver reports from all perspectives.

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【Q6-1】

I have a question about the investments for growth on Page 22 of the Medium-Term Management Plan (2022-2025) Progress Report slides. I feel that your spending is behind the schedule in the budget. I had the same feeling last year. In 2023, there was a M&A transaction involving TCS. What is your estimation of the achievements against the targets last year and could you explain the viability of steadily investing 200 billion yen or more in 2024 and 2025?

【A6-1】

As you said, our spending is a little behind schedule and we must admit that. We have made small investments and M&A deals. We continue to study many different projects based on our long and short lists. From an overall viewpoint, we gave up on some of the projects we had studied. We are conscious of steadily investing towards future growth. We wish to invest not only M&A projects but also in upfront IT investment projects to shift to a service-type business model.

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【Q6-2】

What areas are you roughly thinking of expanding through future M&A activities?

【A6-2】

We will massively expand the IT solutions business and seek synergy and compatibility with our existing businesses. We will remain oriented toward enlarging the IT solutions business. We expect that the largest portion of our M&A activities and investments will be related to the IT solutions business.

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【Q6-3】

You referred to a third data center. An investment made by a large IT firm has been much talked about. What are your views about current demand and about what customers are requesting from you? Also, what is the feasibility of the data center?

【A6-3】

We are considering a large number of projects, but profitability is naturally a prerequisite for investment in a business. In addition, power supply issues may be an obstacle. Some customers tell us that demand will be brisk due to AI and other reasons. We will make a new solid investment to quickly erect third data center and more data centers after that. In the past, we were rather focused on the Tokyo region. In the future, we will step up our actions, including enlarging our regional scope.

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\*The content reflects some additions and modifications to enable it to be better understood.

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